Investment report

Financial year to 30 June 2019

Ten years of strong growth for members

The 2018/19 financial year caps off a decade of positive long-term returns for members.

Those invested in the Balanced Growth option have averaged a 9.0% return for each of those 10 years*, after investment fees and taxes. This means that if they had invested $50,000 in 2009 without making any further contributions, that would have grown to a balance of more than $120,000 today.

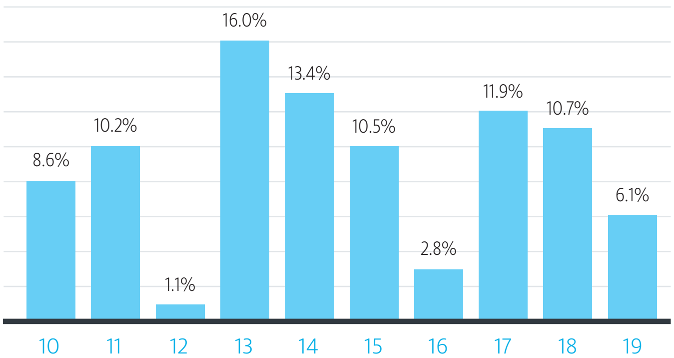
All Diversified options comfortably outperformed their target returns, both over the shorter and longer terms.

The financial year provided positive returns for our members across all investment options.

* Balanced Growth is very similar to Equip MySuper but predates Equip MySuper and thus has a longer track record. All returns are compounded monthly, net of fees and taxes. Calculations based on Moneysmart's compound interest calculator, moneysmart.gov.au.

Equip MySuper, our broadly diversified option for accumulation members, added a solid 6.0% for the year; the Conservative pension option gained 4.8%.

Financial year returns – Balanced Growth 2009 – 2019



Past performance is not a reliable indicator of future performance.

After a weak start, a strong finish

After a jittery start, share markets rebounded during the second half of the year, providing good returns for members across the board. Throughout the year, the worry list was long, creating uncertainty for investors:

- President Trump's on-and-off trade war with China;
- a slowdown in global economic growth, particularly in China;
- the spectre of rising cash rates in the United States for much of last year;
- in Australia, the Federal election and falling property prices dampened market sentiment.

Federal election, interest rate cuts boosted confidence

The fourth quarter of the financial year delivered news that bolstered investor confidence. In Australia, the re-election of the Liberal Morrison government led a surge in the domestic share market, carried by strong gains in the financial sector.

Then, in June, the Reserve Bank of Australia lowered the official cash rate for the first time in three years, cutting rates in June (and then again in July 2019) to a historical low of 1%. The Federal Reserve in the US hinted at future rate cuts in the second half of 2019, with expectations of 0.5% in cuts there and in sharp contrast to expectations of higher rates last September. Similarly, the European Central Bank signalled further monetary support for the Common Market economy as and when needed.

Growth assets outperformed defensive assets

Against this backdrop, all asset classes contributed to the positive performance of our Diversified options. Shares posted double-digit returns in the second half, and finished the year firmly in the black.

Our property portfolio had a strong year, and infrastructure continued to deliver double-digit returns. Fixed interest rallied along with riskier assets, while cash returns were low as expected.

Looking forward

We see the current economic backdrop of moderate economic growth and low inflation as supportive for financial markets. Borrowing costs for companies are attractive, and the low cash rates are reducing mortgage costs for homeowners. Unemployment levels remain low, and wages growth has begun to rise in real terms.

Threats around global trade, as well as geopolitical risks (e.g. Iran), are unresolved at this point, and the second half of the calendar year is traditionally a weaker period of returns in financial markets.

The world is also carrying high debt levels, and interest rates in many parts of the world have been low for a long period of time.

These low rates reduce the ability of central banks to stimulate the economy if an economic downturn was to occur.

But it is important to remember that the price of iron ore and coal has risen substantially over the last few months, providing a much needed income boost for Australia. At the same time, interest rates remain very low, and tax cuts provide further spending power for consumers, which is generally a positive for growth assets such as shares and property.

The biggest risk is not taking any

The key challenge for the coming period is the trade-off between increasingly expensive valuation of many asset classes, and the moderating economic outlook that supports them.

Returns in traditionally safer assets, such as bonds and cash, are likely to be quite low and may not keep up with inflation over the mid to long term, which is a risk in and of itself. Holding such assets does reduce the risk of a large negative return, but this comes at the expense of generating low returns in the long term.

For growth oriented assets, higher prices for these assets mean future returns are likely to be lower than they have been over the last five to ten years – members should prepare themselves for more modest outcomes from their investments.

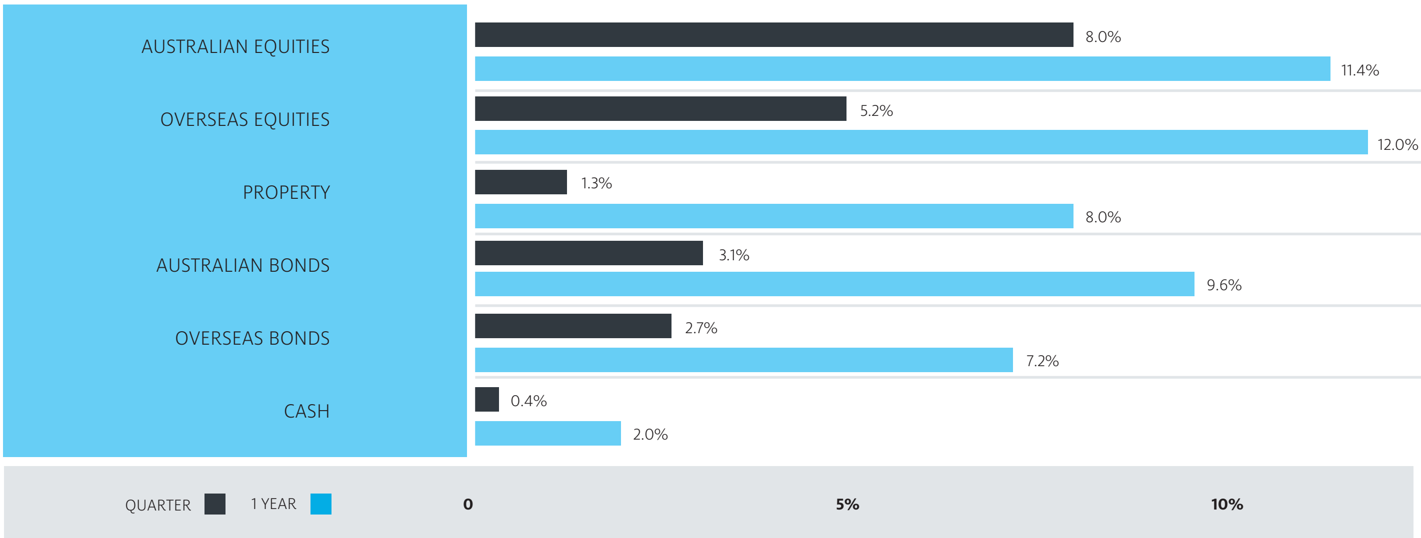
Rising levels of uncertainty around the world suggest that future returns will be more volatile. At some point, members are likely to experience a negative return, something we haven't seen for some time.

But there are a number of factors that point to the coming 12 to 18 months being more positive than is generally expected – for example, the third year of the US Presidential cycle has typically been a positive time for share markets.

Overall, going forward, we expect lower returns for members in broadly diversified options than what we've seen over the last 10 years. In a low inflation world, though, even more modest returns can be a strong positive, helping members outpace rising costs of living.

Index returns at 30 June 2019

The numbers shown below are the index returns of some of the major asset classes we invest in. These are not the returns we provide to our members with our investment options; rather, an index is a measure of the value of a section of a market and can be used to benchmark the performance of investors. Equip's investment performance can be seen on the next page.



The asset class returns are represented by the following benchmarks: Australian equity: S&P ASX 300; Overseas equities: MSCI World ex-Australia Index (net divs), unhedged; Property: Equipsuper property benchmark (80% Mercer Australian Unlisted Property Index and 20% FTSE EPRA/NAREIT Global Listed Index, hedged into AUD; Australian bonds: Bloomberg AusBond Composite Bond Index; Overseas bonds: Barclays Capital Global Aggregate (hedged, in AUD); Cash: Bloomberg AusBond 3-month Bank Bill Index.

Top 10 holdings at 30 June 2019

Australian Shares*

BHP
COMMONWEALTH BANK
WESTPAC
ANZ
NATIONAL AUSTRALIA BANK
CSL
ORIGIN ENERGY
TELSTRA
WOODSIDE PETROLEUM
WOOLWORTHS

*Asset class level

Overseas Shares*

AMAZON.COM (USA)
ALIBABA (CHINA)
ALPHABET / GOOGLE (USA)
WELLS FARGO (USA)
ORACLE (USA)
AON (USA)
TENCENT (CHINA)
COMPASS GROUP (UNITED KINGDOM)
CHARTER COMMUNICATIONS (USA)
HCA HEALTHCARE (USA)

*Asset class level

Investment performance as at 30 June 2019

Accumulation and transition to retirement pension returns*

Diversified options	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.
Growth Plus	6.57	12.82	10.17	10.94
SuperRatings benchmark	7.08	11.33	9.15	10.03
Growth	6.38	10.69	8.94	9.61
SuperRatings benchmark	7.41	9.95	8.47	9.29
Balanced Growth	6.07	9.53	8.34	9.03
SuperRatings benchmark	6.93	8.73	7.71	8.60
Balanced	5.24	7.07	6.56	7.41
SuperRatings benchmark	6.51	6.90	6.23	7.18
Conservative	4.40	4.81	4.83	6.07
SuperRatings benchmark	5.28	5.02	4.85	6.06
Equip MySuper #	5.97	8.82	7.90	
Sector specific options				
Australian Shares	5.79	11.63	8.22	9.68
Overseas Shares	7.02	13.88	11.70	11.77
Property	8.47	8.89	9.18	8.25
Diversified Fixed Interest	4.14	2.43	3.48	5.21
Cash	1.88	1.69	1.83	2.61
Socially Responsible Investments	13.98	14.25	8.68	9.30

Pension returns*

Diversified options	1 YEAR	3 YEARS P.A.	5 YEARS P.A.	10 YEARS P.A.
Growth Plus	7.25	14.24	11.14	12.06
SuperRatings benchmark	8.17	12.09	9.96	11.13
Growth	7.34	11.98	9.75	10.72
SuperRatings benchmark	8.14	11.01	9.56	10.38
Balanced Growth	6.75	10.49	8.87	9.86
SuperRatings benchmark	7.95	9.53	8.41	9.57
Balanced	5.89	8.06	7.24	8.35
SuperRatings benchmark	7.29	7.71	7.10	8.35
Conservative	4.82	5.49	5.18	6.70
SuperRatings benchmark	6.33	5.70	5.48	6.85
Sector specific options				
Australian Shares	5.92	12.76	8.74	10.49
Overseas Shares	7.96	15.40	13.03	13.31
Property	9.62	9.94	10.02	9.17
Diversified Fixed Interest	4.56	3.03	3.74	5.93
Cash	2.21	1.98	2.14	3.06
Socially Responsible Investments	15.38	16.09	9.82	10.92

SuperRatings benchmark: SuperRatings Pty Ltd's survey for accumulation and pension funds published on 19/7/2019, www.superratings.com.au

The benchmarks we use for our Diversified investment options are: Growth Plus - SuperRatings High Growth SR25 Index; Growth - SuperRatings Growth SR50 Index; Balanced Growth - SuperRatings Balanced SR50 Index; Balanced - SuperRatings Conservative Balanced SR25 Index; Conservative - SuperRatings Capital Stable SR50 Index.

Pension returns are generally higher than those for superannuation, as no tax is paid on earnings.

The Sustainable Responsible Investment (SRI) option is invested 100% in Australian equities.

For more information on the investment objectives and strategies for our investment options, please refer to the Equip website or an Equip PDS.

* For periods greater than 1 year, returns are compound annualised returns. Returns are net of tax and investment fees.

\# Equip MySuper was introduced on 1 August 2013.

Past performance is not an indicator of future performance.

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